

Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 105769

O 081752Z FEB 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 0315

C O N F I D E N T I A L SECTION 1 OF 3 BONN 02169

EXDIS

DEPARTMENT PASS TREASURY FOR SECRETARY SHULTZ
PERSONALLY BY COB FEBRUARY 8 WITHOUT FAIL

DEPARTMENT PASS EXIM FOR ACTING CHAIRMAN SAUER
PERSONALLY BY COB FEBRUARY 8 WITHOUT FAIL

E.O 11652: GDS

TAGS: EFIN, GW

SUBJECT: YOUR UPCOMING MEETING WITH MINISTER SCHMIDT
AND THE BONN MEETING ON EXPORT CREDIT

1. WE HAVE BEEN INFORMED BY THE FRG REPRESENTATIVE TO THE BONN MEETING ON EXPORT CREDIT THAT MINISTER SCHMIDT HAS BEEN BRIEFED ON THE PROCEEDINGS AND RESULTS OF THE BONN MEETING AND THAT HE INTENDS TO RAISE WITH SECRETARY SHULTZ AT THEIR MEETING ON SUNDAY THE QUESTION OF LIMITING THE DURATION OF THE REPAYMENT TERMS ON EXPORT CREDIT, PARTICULARLY THOSE EXTENDED TO THE USSR AND EASTERN EUROPE. THIS CABLE REPORTS THE PROCEEDINGS OF THE BONN MEETING AND THE POSITION WHICH THE GERMANS AND FRENCH TOOK ON DURATION OF TERMS, WHICH SCHMIDT WILL RAISE.

2. THE BONN MEETING FOCUSED ON THE FRG PROPOSALS THAT THE ATTENDING REPRESENTATIVES FROM FRANCE, FRG, ITALY, JAPAN, UK AND US ENTER INTO A GENTLEMAN'S AGREEMENT THAT (L) THE MINIMUM LENDING RATE, EXCLUSIVE OF BANKING CHARGES AND FEES, FOR THE CONFIDENTIAL

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OFFICIALLY SUPPORTED COMPONENT OF EXPORT CREDIT BE FIXED AT 7 PERCENT AND (2) THE MAXIMUM EXPORT CREDIT REPAYMENT TERMS ON ALL PRODUCTS AND PROJECTS FINANCED IN WHOLE OR IN PART BY NATIONAL EXPORT

CREDIT AGENCIES BE FIXED AT THE FOLLOWING LEVELS:
EXPORT CREDITS TO INDUSTRIALIZED COUNTRIES SHALL
HAVE A MAXIMUM REPAYMENT TERM OF FIVE AND ONE HALF
YEARS; EXPORT CREDITS TO THE USSR AND EASTERN EUROPEAN
COUNTRIES SHALL HAVE A MAXIMUM REPAYMENT TERM OF
EIGHT AND ONE HALF YEARS; EXPORT CREDITS TO DEVELOPING
COUNTRIES SHALL HAVE A MAXIMUM REPAYMENT TERM OF
TEN YEARS. THE REPAYMENT TERMS OF THE US EXIMBANK
VARY FROM 5 TO 15 YEARS WITH THE AVERAGE TERM OF
REPAYMENT UNDER 10 YEARS. IT IS ONLY FOR LARGE
PROJECTS SUCH AS NUCLEAR POWER STATIONS THAT
REPAYMENT TERMS LONGER THAN 10 YEARS ARE OFFERED.
EXIMBANK BASES ITS TERM OF REPAYMENT ON A REASONABLE
AMORTIZATION SCHEDULE FOR THE PRODUCT OR PROJECT
ACCORDING TO THE EARNINGS IN EACH CASE. WE EXPLAINED
WE COULD NOT ACCEPT THE FRG PROPOSAL ON THE DURATION
OF TERMS BECAUSE OF ITS DISCRIMINATORY NATURE AND
BECAUSE OF OUR CONVICTION THAT REPAYMENT TERMS
ON ALL TRANSACTIONS AND FOR ALL BORROWERS OUGHT
TO BE BASED ON THE NATURE OF THE PROJECT AND ON THE
FINANCIAL REALITIES AND CASH-FLOW ASPECTS OF THE
GOODS OR PROJECT.

3. ON THE QUESTION OF THE MINIMUM INTEREST RATE,
WE NOTED THAT THE US EXIMBANK LENDING RATE ON LONG
TERM CREDITS WAS NOW AT THE SUGGESTED MINIMUM LEVEL
OF 7 PERCENT. WE POINTED OUT, HOWEVER, THAT ONLY
VERY LIMITED INCREASES IN THE LENDING RATES OF
SOME COUNTRIES' NATIONAL EXPORT CREDIT AGENCIES
HAD BEEN SEEN TO DATE AND EMPHASIZED THAT THE
SUSTAINABILITY OF THE 7 PERCENT EXIMBANK RATE WAS
DEPENDENT UPON OTHER COUNTRIES INCREASING THE LENDING
RATES OF THEIR NATIONAL EXPORT CREDIT AGENCIES TO
A COMPARABLE LEVEL. JAPAN, WHICH NOW CHARGES
INTEREST OF 4.75 - 7.5 PERCENT ON CASE BY CASE
BASIS, INDICATED THEY MAY RAISE THEIR RATE, BUT
DON'T KNOW HOW MUCH--PERHAPS AS MUCH AS ZERO POINT FIVE
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PERCENT, FOLLOWING AN INCREASE OF ZERO POINT TWENTY
FIVE PERCENT LAST NOVEMBER. FRANCE, NOW CHARGING
6.35 - 6.75 PERCENT FOLLOWING A ZERO POINT TWENTY FIVE
PERCENT INCREASE THIS MONTH, DID NOT COMMIT TO ANY
FURTHER INCREASE. UK, WHICH JUST WENT TO SLIDING
SCALE OF 6 - 8.5 PERCENT, WITH INTENTION TO

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O 081752Z FEB 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 0316

C O N F I D E N T I A L SECTION 02 OF 03 BONN 02169

EXDIS

AVERAGE AT 6.75 PERCENT, INDICATED THEY ARE WILLING TO CONSIDER A FURTHER INCREASE, BUT DIDN'T EXPECT ACTION ANY TIME SOON DUE TO FORTHCOMING ELECTIONS. ITALY, NOW CHARGING 6 - 6.5 PERCENT INDICATED THEY WOULD DISCUSS POSSIBLE INCREASE WITH MINISTRY, BUT MADE NO COMMITMENT TO RAISE RATES WHICH HAVE BEEN IN EFFECT FOR SOME TIME. GERMANY, OF COURSE, ALREADY CHARGES MORE THAN 7 PERCENT ON BUYER CREDITS. EXIMBANK'S INCREASE TO 7 PERCENT FOR ITS DIRECT LOANS, COMBINED WITH OTHER HALF OF CREDIT FROM US COMMERCIAL BANKS AT PRIME RATE PLUS AN AVERAGE ONE HALF TO ONE PERCENT, RESULTS IN NEW AVERAGE RATE ON EXIM CREDIT PACKAGES OF 8 - 9 PERCENT.

4. TO A LESSER DEGREE, REPRESENTATIVES ALSO DISCUSSED THE FOLLOWING TOPICS: CONSULTATION PROCEDURES; SECTOR AGREEMENTS NOW PENDING IN THE OECD, PARTICULARLY THE NUCLEAR POWER PLANT AND AIRCRAFT SECTOR AGREEMENTS; EXISTING BILATERAL AGREEMENTS ON INTEREST RATES AND REPAYMENT TERMS; THE BLENDING OF AID AND EXPORT CREDIT MONIES IN THE FORM OF MIXED CREDITS; EXCHANGE RATE AND INFLATION INSURANCE; EXPORT CREDIT INSURANCE CHARGES; LOCAL COST FINANCING AND MEDIUM TERM EXPORT CREDIT, GUARANTEE AND INSURANCE COVERAGE AND PREMIUM STRUCTURE.

5. TEXT OF CHAIRMAN'S CONFIDENTIAL REPORT, NEGOTIATED CONFIDENTIAL

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AND AGREED BY ALL REPRESENTATIVES, FOLLOWS:
BEGIN QUOTE: FOLLOWING AN UNDERSTANDING REACHED DURING THE MINISTERS' CONFERENCES OF THE INTERNATIONAL MONETARY FUND IN NAIROBI AND ROME, REPRESENTATIVES OF FRANCE, ITALY, JAPAN, THE UNITED KINGDOM, THE UNITED STATES OF AMERICA AND THE FEDERAL REPUBLIC OF GERMANY MET IN BONN ON 7TH AND 8TH FEBRUARY 1974 UPON INVITATION OF THE FEDERAL MINISTRY OF FINANCE AND EXCHANGED THEIR VIEWS ON THE FINANCING OF EXPORTS.

THE DISCUSSION CONCENTRATED ON THE QUESTIONS PLACED BY THE CHAIR AS TO WHETHER IT WAS POSSIBLE, ON THE ONE HAND, TO ALIGN INTEREST RATES FOR OFFICIALLY SUPPORTED EXPORT CREDITS MORE CLOSELY TO THE MARKET RATES, WHEREBY COUNTRIES SHOULD NOT GO BELOW A CERTAIN MINIMUM RATE, AND, ON THE OTHER HAND, TO LIMIT THE DURATION OF OFFICIALLY SUPPORTED EXPORT CREDITS. THE AIM OF AN INCREASE OF THE GENERAL LEVEL OF INTEREST RATES FOR THESE CREDITS WAS UNANIMOUSLY RECOGNIZED AS NECESSARY.

THE CHAIRMAN SUGGESTED THAT, AS A FIRST STEP, THE PREVIOUSLY MENTIONED LEVEL OF INTEREST RATES SHOULD NOT BE LOWER THAN A MINIMUM OF 7 PERCENT, AT LEAST FOR CREDITS WITH A DURATION OF MORE THAN FIVE YEARS. AS REGARDS THE DURATION OF CREDITS HE SUGGESTED THAT THE GOVERNMENTS OF ALL COUNTRIES REPRESENTED SHOULD DIFFERENTIATE BETWEEN THE DURATION OF CREDITS ACCORDING TO THE ECONOMIC DEVELOPMENT OF BUYING COUNTRIES, THAT THEY SHOULD ACCEDE TO THE OECD CONSULTATION PROCEDURE AND THAT THE GEOGRAPHICAL SCOPE OF APPLICATION OF THIS PROCEDURE BE EXTENDED. THE DELEGATIONS NOTED THAT THE UNITED KINGDOM, THE UNITED STATES AND FRANCE HAVE RECENTLY DECIDED TO INCREASE THE INTEREST RATES APPLICABLE TO THEIR EXPORT CREDITS, ALTHOUGH IN VARYING DEGREES. THE UNITED STATES' DELEGATION POINTED OUT THAT BY RAISING THEIR INTEREST RATE TO 7 PERCENT, THEY HAVE ALREADY ACHIEVED THE MINIMUM RATE WHICH WAS SUGGESTED. THIS COULD ONLY BE SUSTAINED IF OTHER COUNTRIES WITH COMPARABLE RATES WOULD INCREASE THEIR RATES TO THE SAME EFFECT.

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THE INCREASE IN RATES WAS WELCOMED BY ALL DELEGATIONS ALL DELEGATIONS AGREED, HOWEVER, THAT IN COMPARING AND FIXING INTEREST RATES, ALL OTHER CONDITIONS OF CREDIT COMPETITION MUST BE TAKEN INTO ACCOUNT. THE DELEGATIONS WERE FURTHER AGREED THAT IT WAS NECESSARY TO KEEP THE DURATION OF CREDITS AS SHORT AS POSSIBLE.

THE DELEGATIONS EXPRESSED THE OPINION THAT NOTWITHSTANDING THE WORK OF INTERNATIONAL BODIES, THE REPRESENTATIVES OF THE COUNTRIES CONCERNED SHOULD CONTINUE TO OBSERVE THE DEVELOPMENTS IN THE SECTOR OF EXPORT FINANCING AND, AS A FIRST STEP, AND TAKING INTO ACCOUNT THE EXISTENCE OF PRIOR COMMITMENTS SHOULD, IN THE NEAR FUTURE, TRY TO BRING ABOUT A GENTLEMEN'S AGREEMENT BETWEEN THE

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 105669

O 081752Z FEB 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 0317

C O N F I D E N T I A L SECTION 03 OF 03 BONN 02169

EXDIS

GOVERNMENTS CONCERNING THE VARIOUS CONDITIONS OF
OFFICIALLY SUPPORTED EXPORT CREDITS.
THE CHAIRMAN URGED THE DELEGATIONS TO SEEK SUPPORT
IN THEIR RESPECTIVE CAPITALS FOR HIS SUGGESTIONS
REGARDING THE MINIMUM INTEREST RATE AND DURATION OF
CREDITS. END QUOTE

6. REPRESENTATIVES AGREED TO RESERVE MAY 13,14
FOR ANOTHER MEETING OF THE GROUP SHOULD ONE BE
DESIRABLE.

7. COMMENT: IT WAS CLEAR FROM THE OUTSET THAT THE
GERMANS WERE DRIVING FOR AGREEMENT ON MINIMUM
INTEREST RATES AND DURATION. THEY SOUGHT TO BRUSH
ASIDE CONSIDERATION OF THE OTHER COMPONENTS OF
EXPORT CREDIT, SUCH AS INSURANCE RATES (STRESSED
BY THE FRENCH) AND LOCAL COST FINANCING AND
THE BLENDING OF AID AND EXPORT CREDIT MONIES
IN THE FORM OF MIXED CREDITS, WHICH WE RAISED.
WE WERE QUITE SURPRISED AT THEIR STRESS ON DURATION
QUESTION, WHICH THE GERMANS SAID WAS CRITICAL TO
ANY FURTHER UPWARD MOVEMENT ON INTEREST RATES BY
THE FRENCH AS WELL AS TO THEM. IN SPITE OF OPEN
FRENCH AND GERMAN PRESSURE, TACITLY ACCEPTED BY
ITALIAN, JAPANESE, AND UK REPRESENTATIVES
WHO SAT SILENT, WE RESISTED SPECIFIC MENTION OF
DISCRIMINATION AGAINST RUSSIANS AND EASTERN EUROPEANS
IN CHAIRMAN'S SUMMARY. THEY AGREED TO USE PHRASE
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THAT DISCRIMINATION BE BASED ON STAGE OF ECONOMIC
DEVELOPMENT. NO QUESTION THEY ARE CONCERNED ABOUT
USSR, HOWEVER, AS GERMANS STRESSED THAT US TERMS
LONGER THAN THE EIGHT AND ONE HALF YEARS WHICH ALL
EC MEMBERS NOW GRANT, AND WHICH USSR ACCEPTS, WOULD
LEAD THEM TO LENGTHEN GERMAN TERMS. MOST OF THE
MEETING TIME TAKEN UP BY EXCHANGES BETWEEN OUR-

SELVES, GERMANS AND FRENCH. JAPANESE REP WAS PRACTICALLY SILENT THROUGHOUT AND UK AND ITALIANS SAID LITTLE MORE. NO CLEAR INDICATIONS THAT OTHERS WILL NOW INCREASE INTEREST RATES IN SPITE OF OUR STATEMENT THAT SUSTAINABILITY OF US INCREASE IS DEPENDENT ON THEIR ACTION.

8. RECOMMENDATION: (L) THAT SECRETARY SHULTZ TAKE STRONG LINE WITH MINISTER SCHMIDT AGAINST DESIRABILITY PUSHING FURTHER WITH QUESTION OF DISCRIMINATING AGAINST USSR AND DEVELOPED COUNTRIES. WE THINK BETTER TO WORK ON LIMITING TERMS OF SPECIFIC PRODUCT LINES, SUCH AS AIRCRAFT, NUCLEAR POWER, WHICH WORK NOW GOING ON IN OECD.

(2) THAT UNDER SECRETARY VOLCKER FOLLOW UP ON BONN MEETING WITH CABLE TO HIS COUNTERPARTS REITERATING NEED FOR THEM TO FOLLOW US ON INTEREST RATE INCREASE. HILLENBRAND

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<< END OF DOCUMENT >>

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